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PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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October 31, 2019

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 17-09-005:

This is the proposed decision of Administrative Law Judge Elaine C. Lau. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 5, 2019 Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON
Anne E. Simon
Chief Administrative Law Judge

AES:gp2
Attachment

Decision **<u>PROPOSED DECISION OF ALJ LAU</u> (Mailed 10/31/2019)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U902M) for Authority to Implement Rate Relief and Increase Spend in Support of the San Diego Unified Port District's Energy Management Plan.	Application 17-09-005

DECISION AUTHORIZING A FIVE-YEAR RATE PLAN AND A SPECIALIZED ENERGY EFFICIENCY PILOT PROGRAM FOR THE SAN DIEGO UNIFIED PORT DISTRICT

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DECISION AUTHORIZING A FIVE-YEAR RATE PLAN AND A SPECIALIZED ENERGY EFFICIENCY PILOT PROGRAM FOR THE SAN DIEGO UNIFIED PORT DISTRICT

Summary

Today's decision addresses the proposed Energy Management Plan (EMP) of San Diego Gas & Electric Company (SDG&E) and the San Diego Unified Port District (the Port) as follows:

a. SDG&E's proposed special electric rate for the cruise ship terminal account of the Port is rejected, but we approve a five-year Rate Plan with a reduced rate discount that gradually declines over time to help the Port transition to a medium/large commercial and industrial rate.

b. Funding for the specialized energy efficiency pilot program is approved but costs shall not be recovered until a Tier 2 Advice Letter addressing the pilot program requirements is approved.

c. Funding for the enhanced partnership program is denied, but it may be approved at a later date through a Tier 3 Advice Letter.

This proceeding is closed.

1. Application

1.1. Summary of Request

Prior to 2010, ships docked at California ports would run diesel engines and cause significant pollution. To reduce pollution at the ports, state law now requires that ships use electric shore power instead of diesel. To mitigate the ports' increased reliance on shore power, in 2013 the Legislature enacted Assembly Bill (AB) 628 (Gorell, 2013). AB 628 provides that the local utility work with eligible port districts to prepare and implement an Energy Management Plan (EMP) that would help ports reduce energy costs and pollution in their business operations. Following the guidance of AB 628, the San Diego Unified

Port District (the Port) and San Diego Gas & Electric Company (SDG&E) prepared an EMP, as the Port faces an increase in its shore power costs at the cruise ship terminal.

This Application is the first application to have come before the Commission to seek funding for an EMP prepared pursuant to AB 628. The EMP was jointly developed by SDG&E and the Port. According to SDG&E, the EMP provides a comprehensive energy roadmap for the Port to significantly reduce greenhouse gas emissions (GHG) and increase energy efficiency (EE).

In recent years, SDG&E's rate structure for commercial customers changed so that customers with large energy consumption, like the Port, will not be able to take service on the small commercial rate.[1] Beginning July 1, 2018, the Port was scheduled to take service on a medium/large commercial rate.[2] On a medium/large commercial rate, the Port's electric bill would increase by 400 percent.[3] Thus, the Port and SDG&E developed this EMP to help the Port address the increase in its electricity, or shore power, costs.

In this Application, SDG&E seeks authority to increase revenues to fund several components of an EMP that supports the Port. Specifically, SDG&E seeks funding for: 1) a Shore Power Rate, 2) a pilot program for Specialized Energy Efficiency measures, and 3) an Enhanced Partnership Program (Partnership Program).

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[1] Decision (D.) 17-08-030 (SDG&E's General Rate Case (GRC) Phase 2 proceeding amended the eligibility of customers that can take service on SDG&E's small commercial rate.)

[2] The Commission allowed the Port to stay on the small commercial rate until a final decision in this proceeding. *See* Resolution-4812 and D.18-11-031.

[3] Opening Brief of San Diego Unified Port District at 3.

1.2. Procedural History

On September 13, 2017, SDG&E filed this Application, pursuant to Resolution E-4812. The Port filed a timely response supporting the Application on September 26, 2017. The Public Advocate's Office (Cal Advocates), formerly known as the Office of Ratepayer Advocates,[4] filed a timely protest on November 2, 2017. In its protest, Cal Advocates argues that the requested rates discount should be considered as an Economic Development Rate (EDR), complying with Decision (D.) 07-09-016, because the purpose of the discounted rates is for business retention at the Port.[5]

On December 12, 2017, the assigned Administrative Law Judge (ALJ) held a prehearing conference (PHC) to determine the parties and discuss the scope, the schedule, and other procedural matters. At the PHC, the ALJ granted party status to the Utility Consumers Actions Network (UCAN).[6] An Assigned Commissioner's Scoping Ruling and Memo was issued on March 8, 2018. Evidentiary hearings were held on July 2, 3 and 19 of 2018.

On August 17, 2018 opening briefs were filed by SDG&E, the Port, Cal Advocates, and UCAN. Also on August 17, 2018, SDG&E filed a motion seeking additional time to negotiate a settlement. This motion was granted. The parties did not reach a settlement and reply briefs were filed on September 12, 2018 by SDG&E, the Port, Cal Advocates, and UCAN.

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[4] Senate Bill (SB) 854 (Stats. 2018, ch. 51) amended Public Utilities (Pub. Util.) Code Section 309.5(a) so that the Office of Ratepayer Advocates is now named the Public Advocate's Office of the Public Utilities Commission. We will refer to this party as Cal Advocates.

[5] D.07-09-016 modified the EDR rates for Southern California Edison and Pacific Gas and Electric Company (PG&E) by setting a price floor for the EDRs that is based on marginal costs and that includes non-bypassable charges.

[6] PHC Transcript at 24.

On September 28, 2018, SDG&E, the Port, and UCAN filed a joint motion to request an extension of the Port's interim rates, as set by Resolution E-4812, until the issuance of a final decision in this proceeding. Cal Advocates filed a motion requesting that, instead of granting an extension of the interim rate discount, SDG&E be directed to establish a memorandum account to track the difference between the rate that would be effective on January 19, 2019 and the rate approved in final decision in this proceeding.

On November 29, 2018, the Commission issued D.18-11-031, which 1) extended the Port's current small commercial rates on an interim basis until the issuance of a final decision and 2) directed SDG&E to establish a memorandum account as proposed by Cal Advocates.[7]

On June 10, 2019, the assigned ALJ issued a Ruling to request additional information from SDG&E regarding the Port's Contribution to Margin (CTM) threshold and the Port's estimated average rates under various hypothetical scenarios. SDG&E filed its response (SDG&E's Response) to the ALJ's Ruling on June 17, 2019. On June 28, 2019, SDG&E filed an Errata to SDG&E's Response to correct an error on its non-coincident demand charge. On July 8, 2019, Cal Advocates filed comments to SDG&E's Response. On July 17, 2019, SDG&E filed a reply to Cal Advocates' comments. This proceeding was submitted on July 17, 2019.

2. Issues Before the Commission

The issues, as set forth in the scoping memo, are as follows:

1) What is an appropriate rate schedule or rate design for the Port's Cruise Ship Terminal Account?

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7 This account is formally called the San Diego Unified Port District Memorandum Account.

a. Should the Port's Cruise Ship Terminal Account receive a rate discount?

i. If so, what is a reasonable level of discount for the account? Also, what is the appropriate cost recovery mechanism for the discount?

ii. What is the appropriate law governing the requested rate discount? For instance, is the determination of the appropriate rate subject to Public Utilities Code § 740.4 (pertaining to the EDR) or AB 628?

b. How do the Port's rate schedule and energy usage for its cruise ship terminal account compare with those of other California ports, including but not limited to the Port of Long Beach?

c. How does the application's proposal meet the standard of a long-term rate solution, as ordered in Resolution E-4812?

d. How does the proposed EMP "minimize the Port's demand in SDG&E's system in order to align the Port's rate treatment with its cost of service"? (Finding 8 in Resolution E-4812 at 8.)

2) Is the proposed EMP reasonable?

a. How does the EMP comply with all the measures specified in AB 628?

b. Should ratepayers fund all or any part of the proposed EE measures in the EMP? If so, are the proposed EE measures and costs reasonable? What is the appropriate cost recovery mechanism?

c. Should ratepayers fund all or any of the Partnership Program? If so, are the proposed Partnership Program activities reasonable? What is the appropriate cost recovery mechanism?

3) Does this application raise any safety concerns?

4) Does this application raise any issues with disadvantaged communities?

Issues 3 and 4 can quickly be disposed of. Parties agree there are no safety concerns related to the issues in this Application.[8] Parties agree the Application will not result in harm to disadvantaged communities. We agree.

Regarding disadvantaged communities, the proponents of the EMP believe that the EMP will benefit these communities. SDG&E and the Port state that the EMP supports the Port's Climate Action Plan, which aims to reduce greenhouse gas and other harmful emissions at the Port.[9] The reduction of air pollution will have environmental benefits for the areas surrounding the Port, several of which are disadvantaged communities, such as National City and Chula Vista. The Port also states that, because the EMP helps retain its cruise ship business, the EMP also helps retain jobs and bring positive economic impacts to the Port's surrounding disadvantaged communities. Cal Advocates argues that SDG&E and the Port failed to demonstrate any of the benefits SDG&E and the Port claim.[10] We therefore decline to make a finding in this decision regarding whether the EMP will affirmatively benefit disadvantaged communities. However, a finding on the benefit to disadvantaged communities is not required, and it is undisputed that the EMP will not harm disadvantaged communities.

3. Background

3.1. The Port

The Port is a self-supporting public-benefit corporation established by the California State Legislature in 1962 to manage San Diego Bay and the surrounding waterfront land. The Port controls 33 of the 54 total miles along the San Diego Bay, as well as about 2,500 acres of land and almost 3,000 acres of

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[8] Joint Parties List of Disputed Facts (June 6, 2018) at 3.

[9] SDG&E- 1 at 7.

[10] Cal Advocates' Opening Brief at 37-38.

water, spread across its five-member city jurisdictions of Chula Vista, Coronado, Imperial Beach, National City, and San Diego.

The Port manages three deep-water cruise ship berths, which represent half of all Deepwater cruise ship berths in Southern California that can accept both home port and visitation calls. Cruise ships berth at these terminals for four to sixteen days per month during the cruise season, which is approximately from September to late May or early June.

The Port's cruise ship industry provides significant economic benefits to the San Diego region. Each "homeport" call, in which passengers abroad the cruise ship in San Diego, generates $2 million in regional economic benefits.[11] Each "visitation" call, in which passengers disembark the cruise ship for a day of sightseeing in San Diego, generates $600,000 in regional economic benefits.[12]

Prior to 2010, cruise ships docked at the Port would run diesel engines to power their ships. In 2010, regulations passed by the California Air Resources Board (CARB) prohibited ships from docking at ports for more than five times a year unless they use shore-based power.[13] The At-Berth Shore Power Regulations were enacted to reduce airborne toxins from auxiliary diesel engines operated by ships berthed at California ports. In 2010, the Port installed a shore power system at its cruise ship terminal, and established a Cruise Ship Terminal Account (Cruise Ship Account) with SDG&E. With shore power, cruise ships docking at the Port power their ships with electricity (shore power) rather than

[11] SDUPD-2 at 7.

[12] *ibid.*

[13] California Air Resources Board, Airborne Toxic Control Measure for Auxiliary Diesel Engines Operated on Ocean-Going Vessels At-Berth in a California Port.

with air-polluting diesel engines. The Port's Cruise Ship Account has a low "load factor,"[14] because it uses a substantial amount of electricity when a cruise ship is docked but close to zero electricity during times when no ship is docked.

3.2. AB 628

In October 2013, the California legislature passed AB 628. AB 628 authorizes port districts to partner with publicly owned electric or gas utilities to "prepare one or more energy management plans to reduce air emissions and promote economic development through the addition of new businesses and the retention of existing businesses in the district."[15] AB 628 states,

"The Legislature finds and declares all of the following:

(a) The state promotes the efficient use of low-cost, low-emissions energy sources in the operations of its ports and harbors…

(c) The state encourages the development of new businesses and the retention of existing businesses within port and harbor district boundaries.

(d) Energy utility customers located at the port and harbor districts may benefit from the addition of new businesses and the retention of existing businesses through increased energy cost certainty.

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[14] A customer's load factor is determined by the ratio of actual electric energy consumption during a given time period to the consumption that would have occurred had consumption been fully sustained at the peak (maximum) demand level during the same period of time. A customer's load factor indicates to what degree a customer's energy consumption varies compared to the customer's maximum demand.

[15] AB 628 (2013-2017).

(e) Businesses located within the state's port and harbor districts may benefit from the addition of new businesses and the retention of existing businesses through increased energy cost certainty…"[16]

AB 628 identifies two important state policy goals. The first goal is the reduction of air emissions, including greenhouse gases, at the port districts by encouraging the use of shore power to replace diesel power, which ships traditionally used while berthing at the ports. The second goal is the promotion of economic development at the port districts through the addition and retention of businesses by ensuring that businesses have certainty in energy (shore power) costs.

The EMPs authorized by AB 628 are intended to help port districts manage their use of shore power. By helping ports manage shore power demand, these EMPs would help the ports and the businesses located at the ports reduce shore power costs. Thus, AB 628's goals are also to help the port districts manage their shore power demand.

3.3. Change in SDG&E Rate Eligibility

When the Port first installed shore power, the Port received electric service under a small commercial tariff that did not include a demand charge.[17] Recently, in D.17-08-030 (SDG&E's General Rate Case (GRC) Phase 2 proceeding), the Commission approved a change in eligibility for Schedule A, Time of Use (Schedule TOU-A).[18] As a result, the Port was scheduled to begin

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[16] *ibid.*

[17] The small commercial tariff applicable to the Port was Schedule A, (Schedule A, Time of Use (Schedule TOU-A), Time of Use (Schedule TOU-A).

[18] D.17-08-030 amended eligibility for SDG&E's standard small commercial rates, effective July 1, 2018, such that any commercial customer whose demand exceeds 200 kilowatts (kW) in

taking electric service under a rate for medium and large commercial and industrial customers (Medium/Large Commercial Customer Rate) on July 1, 2018.[19]

SDG&E estimates that the Port's effective electricity price would spike from an estimated $0.22/kilowatt hour (kWh), with an estimated annual bill of $461,495, to $1.16/kWh, with an estimated annual bill of $2,389,747.[20] The Port argues that the dramatic rate hike would be detrimental to its cruise ship business. The Port provided a report of an economic analysis that studied the impacts of the Port's new rates.[21] The report estimates that passing these high electric costs to cruise ships would significantly reduce the number of cruise ships docking at the Port such that it would be detrimental to the Port's cruise ship business and San Diego's economy, reducing economic benefits by as much as $50 million to the region.[22]

The report also found that the Port is unique among commercial and industrial customers because the Cruise Ship Terminal Account has a low load factor of 2 percent.[23] Because of the Port's 2 percent load factor, the report estimates that, under the Medium/Large Commercial Rate, 80 percent or more of

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two out of twelve consecutive months will no longer be eligible for service on a small commercial rate.

[19] The Commission allowed the Port to stay on its current Small Commercial Rate until a final decision in this proceeding. *See* Resolution E-4812 and D.18-11-031. Resolution E-4812 first extended the Port's current rates until January 1, 2019. D.18-11-021 extended the Port's current rates until a final decision in this proceeding.

[20] SDG&E-4 at 10.

[21] Berkeley Research Group (BRG) report, Exhibit SDUPD-1 at 5.

[22] BRG estimates that the number of cruise ships docking at the Port would reduce from 87 to 54 visits per year. (*See* SDUPD-1 at 5-6.)

[23] SDUPD-1 at 3.

the Port's electricity costs will come from fixed charges and demand charges rather than energy charges.[24] These demand charges are the primary reasons why the Port's electricity costs would increase four-fold after moving to a Medium/Large Commercial Rate.

3.4. Resolution E-4812

In August 2017, recognizing the negative impacts a steep rate increase would have on the Port, the Commission approved Resolution E-4812. Resolution E-4812 extended the Port's service on the small commercial rate from July 1, 2018 to January 1, 2019.

In Resolution E-4812, the Commission found that:

> By changing rates, the Port could conceivably go from having no demand charges to having more than $100,000 in demand charges in a month when it experiences maximum demand. The Commission finds that this would be contrary to AB 628's goal of greater stability and certainty in the cost of energy services for ports. Further, the Commission finds that the Port's move to displace diesel generation from ships with shore-based power helps to achieve the state's SB 32 GHG goals, and would significantly reduce emissions of criteria pollutants.

Resolution E-4812 affirmed the Commission's support for shore power, because shore power replaces air-polluting diesel generation on ships. At the same time, the Commission also recognized that the small commercial rate is not representative of the cost of service for the Port. As a result, other SDG&E ratepayers must bear the Port's cost of service.[25] For this reason,

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[24] SDUPD-1 at 7.

[25] *See* Resolution E-4812 at 5. (Citing AL 2896-E), ("SDG&E acknowledges that granting the requested interim rate relief could extend the Port's tenure on "a rate that is not representative of its cost of service and is thereby being supported by other ratepayers.")

Resolution E-4812 found it inappropriate for the Port to remain on the small commercial rate for an extended period of time.

In light of AB 628 and the Port's unique situation, Resolution E-4812 allowed the Port to remain on the small commercial rate on an interim basis but directed SDG&E to propose a "long-term rate solution" and "pay particular attention to the cost basis."[26] Resolution E-4812 specifically directed that the EMP should address the Port's low load factor.[27] Resolution E-4812 noted that "the Port's maximum demand is over 20 times higher than that of the next highest customer among those who would be transitioned to AL-TOU by the rate applicability change."[28]

3.5. Rate Design Principles

The Commission has adopted a set of rate design principles in several Commission decisions.[29] We will use these as a guide in setting the rates for the Port. The rate design principles are: [30]

1. Low income and medical baseline customers should have access to enough electricity to ensure basic needs (such as health and comfort) are met at an affordable cost;

2. Rates should be based on marginal cost;

3. Rates should be based on cost causation principles;

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[26] Resolution E-4812 at 5.

[27] *Id*. at 8 (Resolution E-4812 notes that SDG&E planned to include tools to improve the Port's load factor in the EMP).

[28] *Id.* at 4.

[29] D.14-06-029 at 12; D.18-08-013 at 37; D.15-07-001 at 27-28.

[30] The "Bonbright Principles" include rate attributes such as fair apportionment of costs among customers, encouragement of efficient use of energy, rate stability, and ability to meet revenue requirement under the fair return standard. See, Bonbright, James C., Principles of Public Utility Rates, Columbia University Press, New York NY, 1961.

4. Rates should encourage conservation and energy efficiency;

5. Rates should encourage reduction of both coincident and non coincident peak demand;

6. Rates should be stable and understandable and provide stability, simplicity and customer choice;

7. Rates should generally avoid cross subsidies, unless the cross subsidies appropriately support explicit state policy goals;

8. Incentives should be explicit and transparent;

9. Rates should encourage economically efficient decision making; and

10. Transitions to the new rate structures should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and appropriately considers the bill impacts associated with such transitions.

3.6. Port's Energy Management Plan (EMP)

In this Application, SDG&E requests funding for several elements of the Port's EMP, which SDG&E and the Port jointly prepared pursuant to AB 628. The table below shows the EMP components for which SDG&E is requesting funding.

EMP Component	**Funding Request**
Specialized EE	$2.092 million
Partnership Program	$5.506 million
Discounted Rate	$10.8 million
Total Requested	**$18.398 million**

The EMP has five main areas of focus: Energy Efficiency, Advanced Technologies, Clean Generation, Clean Transportation and Electric Rates. The EMP includes several proposals that would improve the Port's load factor such as a multi-phase, mobile battery storage solution, and a proposal for storage, solar, and other advanced technologies.[31] SDG&E and the Port planned for this EMP to be the first of multiple EMPs in the next 15 years.

The Commission considers the EMP holistically and determines whether the funding requests should be granted in that context.

While the EMP has proposals may that lower the Port's overall energy demand, we concur with Cal Advocates that the EMP does not contain any meaningful tools to help the Port manage energy demand at its Cruise Ship Account.[32] Even though the EMP contains a detailed and cost-efficient EE plan, these EE measures are targeted for the Port's tenants and facilities and do not help the Port shift or significantly reduce the demand of its Cruise Ship Account.

Since there are no plans for cruise ships to shift demand, we agree with Cal Advocates that the only mechanisms the Port has to effectively manage demand for the Cruise Ship Account are distributed generation and energy storage.[33] The Port's EMP contains a mobile battery storage proposal, which is the only mechanism in the EMP that could shift demand at the Cruise Ship Account.[34] But the mobile battery storage proposal is not fully developed. SDG&E does not have any plans for when it will implement this proposal and is also uncertain about the size of the battery it will procure.[35]

The EMP does not contain any effective proposals to help the Port address the low load factor and energy demand issues of its Cruise Ship Account. To

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[31] SDG&E's Opening Brief at 19.

[32] Cal Advocates' Opening Brief at 12-14.

[33] Cal Advocates' Opening Brief at 13.

[34] Hearing Transcript, Vol 1, Page 33, Lines 13-18.

[35] Hearing Transcript, Vol 1, Page 28-33.

lower the demand charges and the average electric rate of this account, the Port needs to increase the account's load factor or shift its demand. Absent a rate discount, the Port would still face these same issues, as well as the resulting high demand charges, at the end of the EMP period. Thus, in this instance, the EMP falls short of meeting AB 628's goals of helping the Port manage its shore power demand, particularly for the Port's Cruise Ship Account.

In addition, by not addressing the Cruise Ship Account's load factor issues, the EMP also fails to comply with Resolution E-4812.

AB 628 indicates that the Commission may offer technical assistance in the preparation of the EMPs, including identifying best practices, innovations in technology and potential funding sources. AB 628 states, "The Public Utilities Commission may offer technical assistance in the preparation of the energy management plans developed and implemented pursuant to this chapter, including, but not limited to, identifying best practices, innovations in technology, and potential funding sources."[36] SDG&E and the Port have not indicated whether they reached out to Commission's Energy Division for assistance in drafting the EMP. We believe that the EMP would benefit considerably with Energy Division's technical expert advice. Thus, we direct Energy Division to provide technical assistance to SDG&E or the Port if SDG&E or the Port wants to revise their EMP and requests assistance from Energy Division in developing a revised EMP. If the Port or SDG&E revises its EMP, the revised EMP should focus on reducing the peak demand or increasing the load factor at the Port's Cruise Ship Account.

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[36] AB 628 (2013-2014).

4. Electric Shore Power Rate

4.1. Parties' Positions

One component of the Port's proposed EMP is a five-year shore power discount rate proposed by SDG&E for the Port's Cruise Ship Terminal Account. SDG&E requests authority to implement this discount rate to help the Port avoid rate shock. SDG&E's proposed shore power rate is a flat rate that is equal to the class-average rate of SDG&E customers on the Medium/Large Commercial Rate.[37]

Under SDG&E's proposal, the Port would pay an effective rate of $0.20 per kWh, which is less than its current effective rate of $0.22 per kWh under the small commercial schedule (Schedule TOU-A). UCAN estimates that the Port's bill would be 11 percent lower under SDG&E's proposed shore power rate than under the Port's current rate.[38] Compared to a Medium/Large Commercial Rate (Schedule A6-TOU), the Port's electric costs on SDG&E's proposed shore power rate would be 83 percent less.[39] Effectively, the Port would receive an annual discount of $2,166,041 off of Schedule A6-TOU (Medium/Large Commercial Rate).[40] Over the proposed five-year term of the EMP, the Port would receive a discount of approximately $10.8 million, which would be funded by other SDG&E ratepayers.[41]

SDG&E and the Port assert that this discounted rate is necessary to retain the Port's cruise ship business. SDG&E and the Port assert that the Legislature's

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[37] SDG&E-4 at 8.

[38] UCAN-2 at 14.

[39] SDG&E-4 at 10, Table CF-1.

[40] *ibid.*

[41] SDG&E-4 at 11.

intent to allow a discount rate as part of the EMP is supported in AB 628's statutory language. AB 628 states that "businesses located within the state's port and harbor districts may benefit from greater stability and certainty in the cost of energy services…"[42]

Both UCAN and Cal Advocates oppose SDG&E's proposed shore power discount rate, arguing that although AB 628 mentions rate stability, it does not expressly authorize a rate discount. Both UCAN[43] and Cal Advocates[44] propose that if a discount is granted by today's decision, the discounted rate should at least yield a positive Contribution to Margin (CTM) to minimize the costs other ratepayers have to pay to fund the Port's discounted rate.[45]

4.2. Discussion

To set a rate appropriate for the Port's Cruise Ship Account, we use the Rate Design Principles that the Commission has previously adopted as a guide (see Background, Rate Design Principles section). One of these principles is "rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals." Two state policy goals

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[42] SDG&E's Opening Brief at 4.

[43] UCAN proposes a discount off Schedule A6-TOU but the discount should be limited such that the Port would still contribute a positive CTM. UCAN also presents two other rate alternatives for the Commission to consider: 1) Schedule DG-R, which would yield a negative CTM; and 2) Schedule A6-TOU, but with the discount greater at the beginning and then declining so that it would render a positive CTM at the end of the discount period. UCAN would limit any discount to a period of five years and allow the discount only for the Cruise Ship Terminal Account's existing load.

[44] Cal Advocates proposes that the Commission approve a rate similar to that of an EDR for the Port. In the alternative, Cal Advocates proposes a discount on non-coincident demand charges, with a larger discount in the first year that steadily decreases: 20% of its non-coincidental demand charge in the first year, 40% in the second year, 60% in the third year, and 80% in the fourth year, 100% in the fifth year.

[45] When a CTM is positive, the customer's electric rate covers at least its marginal costs and non-bypassable charges. *See* discussion of CTM in the Discussion section below.

explicitly identified in AB 628 are 1) the reduction of air emissions at the port districts through the use of shore power and 2) the promotion of economic development at the port districts by giving businesses certainty in energy (shore power) costs (see Background, AB 628 section). Given these state policy goals, the Commission finds it reasonable to grant a rate discount for the Port's Cruise Ship Account. A rate discount for the Port is necessary to help it avert rate shock, manage shore power costs, and retain its cruise ship business.

But, like UCAN and Cal Advocates, the Commission believes that SDG&E's proposed discount rate is excessive. The amount of any discount on the Port's rate would be collected from other ratepayers. Under SDG&E's proposed discount rate, the amount of subsidy other SDG&E ratepayers would have to provide is more than under the Port's current rate (the small commercial rate). Furthermore, SDG&E's proposed shore power rate provides no incentives for the Port to address its low load factor problem, since SDG&E's proposed discount rate does not reflect the costs associated with the Port's load factor, time of use, or peak demand. Without these proper incentives, SDG&E's proposed discount rate contradicts one of our Rate Design Principles, which states that "rates should encourage reduction of both coincident and noncoincident peak demand." (see Background, Rate Design Principles section)

For these reasons, today's decision adopts a five-year Rate Plan that gives the Port's Cruise Ship Account a reduced rate discount, under the following terms:

1) The Port's Cruise Ship Account shall take service on a Medium/Large Commercial and Industrial rate schedule.
2) A discount, as set forth in the "five-year Rate Plan" table below, shall apply to the Cruise Ship Account's demand

charges. The discount shall apply over a five-year period beginning January 1, 2019.

3) The discount is only applicable to the Cruise Ship Account and shall follow the schedule of the five-year Rate Plan shown below.

	Adopted 5-Year Rate Plan				
	Demand Charge Discount	Resulting Average Rate (1)	Port's Current Average Rate (2) (Small Commercial TOU-A)	SDG&E's Proposed Shore Power Rate (2)	Medium/Large Commercial Effective Rate (2) (A6-TOU)
Year 1	85%	$0.256	$0.224	$0.199	$1.162
Year 2	80%	$0.305	$0.224	$0.199	$1.162
Year 3	70%	$0.403	$0.224	$0.199	$1.162
Year 4	65%	$0.452	$0.224	$0.199	$1.162
Year 5	60%	$0.502	$0.224	$0.199	$1.162

****Note: All figures, if not clearly labeled, are in $/kWh.**

(1) Source: SDG&E's Response to ALJ Ruling Requsting Additional Information, dated June 17, 2019, Page A-6.

(2) SDG&E-4 at 10.

The discounts we approve today are more moderate than SDG&E's proposed discount. But they are sufficient in mitigating a rate shock for the Port, since the Port will pay a rate similar to its current effective rate (the small commercial rate) during the first year of the five-year Rate Plan (Rate Plan). Because demand charges constitute the majority of the Port's rate increase and are the primary reasons for the Port's rate shock, it is appropriate that we apply the discounts only to the Cruise Ship Account's demand charges.

In determining an appropriate rate discount for the Port, we also consider our Rate Design Principles of setting rates based on cost causation principles and marginal costs. Thus, the Rate Plan we adopt today is structured as a glidepath in which the Port will pay a rate similar to its Contribution-to-Margin (CTM) at the end of the discount period. Setting the Port's rate at the CTM ensures that the Port pays at least its marginal costs, in addition to any non-bypassable charges.[46] With the rate set at the CTM, we minimize the cross subsidies SDG&E ratepayers will have to provide to fund the Port's discounts.

However, parties have not agreed on a CTM threshold. SDG&E calculated that the Port's CTM threshold is $0.44/kWh, using billing determinants from 2018.[47] Cal Advocates asserted that the CTM threshold should be $0.543/kWh, which it calculated by averaging three years of CTM numbers using 2016-2018 billing determinants and applying an annual 4.14% escalation.[48]

The CTM threshold that we adopt is $0.50324/kWh. As shown in the Rate Plan table above, the Port's estimated average rate of $0.502/kWh during the fifth year is approximately the same as the Port's CTM of $0.503/kWh. The CTM threshold of $0.50324/kWh is calculated based on the three-year average of the CTM thresholds using 2016-2018 billing determinants. We find Cal Advocates' proposal of using a three-year average to be reasonable, because looking at the Port's usage over the most recent three-year period yields a more accurate estimate than looking at its usage only at the most recent year. Cal Advocates' proposed annual escalation of 4.14 percent has not been presented in this proceeding other than in comments to SDG&E's filing. Since there is not a record examining the appropriate escalation amount and whether using escalation is appropriate, we will not use any escalations in our CTM calculation.

The Rate Plan we approve today is reasonable because it allows the Port to manage the costs of shore power and retain its cruise ship business, in alignment

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46 UCAN-2 at 12.

47 Errata to SDG&E Response to Ruling Requesting Additional Information (June 28, 2019) at 1.

48 Comments of the Public Advocates Office on San Diego Gas & Electric Company's Response to the Administrative Law Judge's Ruling Requesting Additional Information (July 9, 2019) at 4-5.

with the state policy goals underlying AB 628. Furthermore, the Rate Plan ensures that the Port pays a rate similar to its CTM at the end of the discount period, in accordance to our cost causation and marginal costs principles in designing rates.

With the discounts gradually declining over the five-year period, the Rate Plan incentives the Port and SDG&E to develop and implement measures contemplated by AB 628, such as distributed generation and energy storage, so that the Port will be to shift its demand or increase its load factor. We expect that the Port and SDG&E will begin work on these energy measures promptly after issuance of this decision. We recommend that the Port and SDG&E work with Energy Division to ensure that the plans for these measures are adequate.

4.3. Implementation

Within 20 days of this decision, SDG&E shall file a Tier 1 Advice Letter (AL) to implement the 2019 and 2020 rates for the Cruise Ship Terminal Account. For rates effective every year thereafter, SDG&E shall file a Tier 1 AL to implement the rates for the Cruise Ship Terminal Account by December 1st of the prior year, until the end of the five-year rate discount period.

4.4. Funding for the Discounted Rates

SDG&E proposes to recover the costs of the Port's rate discount through the Public Purpose Program (PPP) revenues. Public Purpose Program revenues are collected to recover the costs of implementing public policy programs that affect all ratepayers. SDG&E argues that, because the Cruise Ship Terminal Account rate discount is intended to meet the public policy objectives of AB 628, recovering the discount through the PPP revenues is reasonable and consistent with how costs for implementing other public policy programs are recovered.

Furthermore, SDG&E argues that all SDG&E customers benefit from the retention of the Port's electric sales, even at discounted rates.

UCAN opposes the recovery of the costs through the PPP charges. UCAN asserts that the discount does not further any environmental, energy efficiency, and energy management goals directed by AB 628 or support any other public policy goals. UCAN proposes that the cost of the rate discount be recovered through the distribution rates of other Medium/Large Commercial Rate customers.

Because the Port's rate discount supports the state policy goals outlined in AB 628, it is reasonable for SDG&E to recover the costs of the Cruise Ship Account's rate discount through the PPP revenues. Furthermore, all SDG&E ratepayers benefit from the retention of the Port's electric sales, even at discounted rates. Likewise, loss of some or all of the Cruise Ship Terminal's electric sales will increase the revenue burden of all other SDG&E ratepayers. SDG&E shall recover the costs of the Cruise Ship Terminal Account's rate discounts through the PPP revenues.

5. Enhanced Partnership Program

5.1. Parties' Positions

SDG&E requests $5.506 million to implement the Partnership Program from 2019 through 2023.[49] The Partnership Program would provide the management, staffing, governance and oversight to support the implementation of the EMP. Specifically, the Partnership Program provides the EMP with 1) program governance and management, 2) strategy and planning, 3) implementation support, and 4) stakeholder outreach and engagement.[50]

[49] SDG&E-3 at 2.

[50] SDG&E-14 at 5.

SDG&E and the Port would jointly implement the Partnership Program. SDG&E proposes to recover the Partnership Program funding PPP revenue.

SDG&E explains that because the EMP includes many different programs and projects, such as energy efficiency measures, battery storage projects, infrastructure upgrades, distributed generation, and clean transportation, dedicated staffing is necessary to ensure that the EMP projects are managed, measured, and evaluated properly.[51] Because AB 628's requirements are extensive, SDG&E argues that the Partnership Program is necessary to ensure that the goals and program objectives of the EMP and AB 628 can be achieved.[52] SDG&E argues that AB 628 provides the authority for the establishment of the Partnership Program.[53]

The Partnership Program budget, without loaders and escalation, is $4.024 million in 2017 dollars. SDG&E will receive $1.671 million and the Port will receive $2.353 million. SDG&E's budget includes two full-time positions, an SDG&E Program Manager and an SDG&E Program Assistant. The Port's budget supports 1.38 full-time positions, a program manager, senior environmental specialist, and engineer manager. The Partnership Program budget also includes non-labor expenses for consulting services, design, and reporting tasks associated with the various EMP programs.[54]

Cal Advocates opposes the funding of the Partnership Program, arguing that the Partnership Program supports the Port's management of the EMP and does not benefit ratepayers. Furthermore, Cal Advocates argues that funding for

[51] SDG&E Opening Brief at 8.

[52] *Id.* At 9.

[53] SDG&E Opening Brief at 8.

[54] SDG&E-3 at 9-10.

some of the Partnership Program activities are already provided through other Commission proceedings, such as in the Transportation Electrification (TE) Application ((A.) 17-01-020) and EPIC 3 (A.17-05-009), as well as grants from other state agencies such as the California Energy Commission (CEC) and California Air Resources Board (CARB).

5.2. Discussion

We deny without prejudice SDG&E's requested funding for the Partnership Program for the following reasons:

1) Because the underlying EMP does not adequately address important aspects of AB 628,[55] it is not reasonable to expend funds on the Partnership Program at this time.
2) Although SDG&E states that the funding requested for the Partnership Program would not be duplicative of funding being received from other sources, SDG&E has not provided sufficient evidence to support this claim.
3) SDG&E may seek funding for the Partnership Program in another proceeding or from other sources.

The Port and SDG&E assert that the Partnership Program funding would be incremental to the funding provided by these other sources.[56] However, we find that SDG&E failed to provide sufficient information to support this claim, particularly since the administrative activities that the Commission has funded for EMP-related programs are similar to the program management activities SDG&E is requesting for the Partnership Program. For example, the mobile battery storage project, which is one of the programs in the EMP, has received

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[55] For example, as noted above, the current EMP does not include effective tools to improve the Port's low load factor in the near future through distributed generation, energy storage, or EE targeted at cruises ships.

[56] SDG&E-3 at 3.

administrative funding through a TE program (A.17-01-020) and EPIC 3 program (A.17-05-009).

Today's decision not to fund the Partnership Program does not foreclose on other mechanisms of funding. For example, Cal Advocates suggested that the Port raise funds by issuing bonds or increasing charges for tenants using the Port's facilities or services.

Many of our concerns with the Partnership Program could be resolved with input from Energy Division staff. We recommend that SDG&E and the Port work with Energy Division to address the need for effective tools to increase the Port's low load factor through distributed generation, energy storage, or EE targeted at cruises ships. Although today's decision denies funding for the Partnership Program, SDG&E may request funding for these activities at a later date via a Tier 3 Advice Letter, after working with Energy Division to address these deficiencies and develop a revised EMP that demonstrates Partnership Program activities are incremental to activities that have been funded by other sources. The amount requested in the advice letter must not exceed $5.506 million.

6. Energy Efficiency Measures

As part of the EMP, SDG&E proposes to implement an EE program for the Port. The EE program contains two parts: a Standard EE program and a Specialized EE program. The Standard EE program contains measures that qualify for funding through SDG&E's Standard EE program. SDG&E will request funds for the Standard EE program through SDG&E's existing EE portfolio. The Specialized EE program contains energy savings measures that do not qualify for funding through SDG&E's Standard EE programs.

The combined EE programs are projected to save 10 million kWh and 60,000 therms over the three-year implementation cycle of 2019-2021.[57] Using the Port's 2017 revised annual electric and gas conversion rates, the combined EE Programs are estimated to reduce greenhouse gas emissions by 2,777 metric tons CO2 Eq by the end of 2021.[58] The Standard EE program would account for 74.7 percent of the savings, targeting electric savings of 7.47 million kWh and gas savings of 44,820 therms. The Specialized EE program would account for 25.3 percent of the savings, targeting electric savings of 2.53 million kWh and gas savings of 15,180 therms.[59]

SDG&E proposes that both programs have a three-year EE planning cycle (2019 – 2021) to allow sufficient time to respond to the changing nature of technology and EE regulations.[60] SDG&E proposes that the EE programs be managed and coordinated through the Partnership Program.

6.1. Standard EE Measures

No party opposes SDG&E's Standard EE proposal. Though no party opposes SDG&E's proposed Standard EE proposal, but because SDG&E is seeking funding for these measures in the Standard EE Portfolio proceeding, it is appropriate for SDG&E to seek approval of these measures pursuant to the annual budget advice letter process established in D.18-05-041.[61]

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57 SDG&E-12 at 4.

58 SDG&E-2 at 17.

59 SDG&E-12 at 4.

60 SDG&E-2 at 2.

61 *See* D.18-05-041 (Decision Addressing Energy Efficiency Business Plans), issued June 5, 2018, at Section 7.

6.2. Specialized EE Program

6.2.1. Parties' Positions

SDG&E requests $2.310 million to fund the Specialized EE program for three years of implementation, from 2019-2021.[62] SDG&E explains that the Specialized EE measures were developed through the audit of energy usage required for the EMP under AB 628.[63]

Without loaders, escalation, and taxes, the Specialized EE program costs $2.092 million.[64]

Program Component	Cost
Targeted Specialized Measure Procurement Costs	$1.192 million
Specialized Audits	$300,000
Emerging Technology	$600,000
Total	$2.092 million

A majority of the funds SDG&E requested is for Targeted Specialized Measure Procurement Costs to acquire equipment such as non-permanently installed, portable equipment used aboard ships for repair (*i.e.,* welding equipment, air compressors, lighting and ventilation).[65] Typically this equipment would be operated by subcontractors at the Port.[66] Cal Advocates is concerned that because the equipment is portable, ratepayers face a risk of not receiving the benefits of avoided energy costs if the equipment is removed from

62 SDG&E-12 at 6.

63 *Ibid.*

64 SDG&E-12 at 5.

65 *Id* at 2.

66 *Ibid.*

the Port. SDG&E believes that risk is limited, because the equipment at issue is generally large, industrial equipment that are contracted under commercial lease agreements to the contractors.[67] We acknowledge Cal Advocates' concerns, but find SDG&E's explanation satisfactorily addresses these risks. The contractual leasing agreements protect portable equipment from being removed from the Port's premises because vendors are contractually obligated to return the leased equipment. More importantly, the equipment will use electricity from the grid and offer energy savings potential that the Standard EE portfolio does not explore.

SDG&E also requests funding for Specialized EE audits. SDG&E argues that Specialized EE audits are necessary because Standard EE audits, like those included in its Comprehensive Audit Program, are not sufficient to identify more complex savings opportunities that the specialized nature of the industries operating at the Port require. SDG&E explains that Specialized Audits are performed by experts with specialized technical skills and industry knowledge to identify energy savings opportunities.[68]

In addition, SDG&E requests funding for Emerging Technologies to explore a few emerging technology projects to improve the Port's energy usage, including advanced lighting and lighting controls, advanced sandblasting, and advanced commercial Heating, Ventilating and Air Conditioning (HVAC) systems and controls.[69] The emerging technology projects are the results of assessments SDG&E conducted pursuant to AB 628.[70]

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[67] SDG&E's Reply Brief at 17-18.

[68] SDG&E-2 at 13.

[69] *Id* at 14-15.

[70] *Ibid*.

6.2.2. Discussion

We approve the $2.310 million SDG&E requests to administer the proposed Specialized EE measures as an EE pilot program. The Specialized EE measures will allow SDG&E and the Port to explore EE measures that are not traditionally pursued as part of the Standard EE portfolio, and that are unique to the Port. Investing in these Specialized EE measures allows us to explore new areas that can offer valuable savings potential and helps us to achieve the state's goals for doubling energy efficiency by 2030.

To ensure that ratepayer funds are spent appropriately, we direct SDG&E to make cost-effectiveness (*see* discussion below) a criterion in its Request for Offers (RFO) selection process. We also direct SDG&E to ensure that the vendors performing the Evaluation, Measurement and Verifications Plan (EM&V) of the EE measures are different than the vendors implementing the EE measures. Because the Specialized EE measures support the policy goals of AB 628, it is appropriate for the Specialized EE program to be funded through ratepayer funds.

However, no funds may be recovered from ratepayers until SDG&E has demonstrated compliance with the D.09-09-047 pilot requirements.[71] This decision provides that SDG&E can seek confirmation of its compliance with D.09-09-047 through a Tier 2 AL on the terms described below.

6.2.2.1. Cost Effectiveness

To make our determination on the funding of the Specialized EE measures, we first consider whether the measures are cost effective. AB 628 encourages

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[71] D.09-09-047 approved Energy Efficiency Portfolios and Budgets. It also approved a set of criteria and requirements for the development and approval of Energy Efficiency pilot programs.

cost-effective EE measures,[72] but does not require any specific findings to be made. The Commission has developed cost-effectiveness methodologies as part of the standard energy efficiency programs pursuant to Code § 454.55 and 454.56.

EE programs are evaluated for cost-effectiveness based on Total Resource Cost (TRC) ratios and Program Administrator Cost (PAC) ratio. The TRC ratio measures a program's cost-effectiveness by considering customer costs. The PAC ratio cost measures a program's cost-effectiveness by considering the cost of administration. For the TRC ratio and the PAC ratio, a value of 1.0 or greater is considered cost-effective.

SDG&E states that the Specialized EE program's TRC ratio is 0.99, with the TRC ratios of individual proposed measures ranging from 0.36 to 2.39.[73] As calculated by SDG&E, many of the proposed specialized measures are cost-effective, with 63 percent of them with a TRC of 1.0 or greater. SDG&E states that the PAC ratio for the Specialized EE program is 2.32.[74] The PAC ratio for individual measures ranges from 1.63 to 3.01.[75]

	Total EE Program (Standard & Specialized)	**Specialized EE Only**
TRC Ratio	1.56	0.99
PAC Ratio	2.86	2.32

[72] As part of the assessment required to be included with the EMP must include "A list of recommendations… for the enhanced use of cost-effective energy efficiency... " (Public Resolution Code § 25990.)

[73] SDG&E-12 at 14.

[74] *ibid*.

[75] *ibid*.

SDG&E argues that, according to the Commission's EE Policy Manual, only the overall EE portfolio, not the individual measures, needs to be cost-effective.[76] When both the proposed Standard EE program and the proposed Specialized EE program are taken into account, SDG&E argues that the combined EE program is cost-effective because it has a TRC of 1.56 and a PAC of 2.86.[77]

SDG&E developed its own "implementation probability" methodology for evaluating the Specialized EE measures. Cal Advocates is skeptical that this "implementation probability" methodology is credible because this methodology does not follow the standard TRC and PAC calculations. However, SDG&E explains that the "implementation probability" is similar to the "installation rate" used in Standard EE calculations. Like the "installation rate", the "implementation probability" adjusts the savings projections to factor in the rate of what is reasonably expected to be installed, assuming that not all measures will be adopted. Cal Advocates has not explained why it believes SDG&E's implementation probability skews the accuracy of these numbers. While we acknowledge Cal Advocates' concerns, we also recognize that, because the Specialized EE program is a pilot program, the cost-effectiveness of the program will be verified through an EM&V process that assesses these measures mid-way in the program. We agree with SDG&E that this methodology is sufficient to show cost-effectiveness in this context.

In addition to the PAC and TRC measures of cost-effectiveness, SDG&E states that its pay-for-performance RFO process will ensure that a specified level

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[76] SDG&E-9 at 13.

[77] SDG&E's Reply Brief at 16.

of cost-effectiveness is reached.[78] Under SDG&E's proposal, vendors are paid only for the EE savings achieved and verified.

The Specialized EE program provides additional benefits that are not necessarily quantified in cost-effectiveness calculations. The Specialized EE program also encourages technological and process innovation. The Specialized EE program provides new categories of energy efficiency that were not previously explored, such as temporary and portable equipment and energy intensive industrial processes such as sandblasting.

6.2.2.2. D.09-09-047 Pilot Program Requirements

SDG&E proposes to administer the Specialized EE program as a pilot program, according to requirements specified in D.09-09-047 (Pilot Program Requirements).[79] Since no studies have been conducted to understand and estimate the savings potential from the use of Specialized EE program measures, SDG&E explains that putting these measures in a pilot program will thus allow them to study the viability of including these measure in future portfolios. SDG&E argues that these measures are creative and innovative ways to support the Port's needs and have the potential to provide EE savings.

To fulfill the Pilot Program Requirements, SDG&E states that it will provide the Specialized EE program's performance metrics, methodologies to test the cost-effective of the project, and an EM&V plan. SDG&E explains that Pilot Program Requirements will create the framework for the Specialized EE program, and will obligate SDG&E to set a clear budget and timeframe for

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[78] SDG&E-9 at 9.

[79] *Id* at 12-13.

implementation of energy efficiency measures, track performance metrics, evaluate and measure results, and disseminate best practices.

Cal Advocates contends that SDG&E has not adequately explained how its Specialized EE program complies with the Pilot Program Requirements.[80] Specifically, SDG&E should have provided plans for the pilot program, measurable goals or metrics to measure the success of the pilot, or a methodology or plan to assess whether the pilot program should be fully deployed.[81]

SDG&E states that it will submit a fully-developed pilot that complies with the Pilot Program Requirements, after meeting with Commission staff to determine the appropriate EM&V procedures.

Because SDG&E has not yet shown how it will meet the Pilot Program Requirements, we cannot approve the proposal without further oversight. Therefore, we direct SDG&E to file a Tier 2 AL with Energy Division within 60 days of the issuance of this decision to provide the necessary documentation to show how the Specialized EE program meets all the EE Pilot Program Requirements. SDG&E shall not recover the $2.310 million in funding until Energy Division has approved the Tier 2 AL. We encourage SDG&E and the Port to coordinate with Energy Division in developing the pilot program, even prior to the submission of the AL.

6.2.3. Funding for Specialized EE

SDG&E proposes to recover the costs of the Specialized EE pilot program from PPP revenues, with 90 percent of the costs recovered from its electric

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80 Cal Advocates Opening Brief at 78.

81 *Ibid.*

customers and 10 percent of the costs recovered from its gas customers. SDG&E explains that recovery through the PPP rates is appropriate because the Specialized EE program is intended to meet the public policy objectives of AB 628, consistent with treatment for cost recovery of implementing other public policy programs.

Cal Advocates opposes the recovery of the Specialized EE through PPP charges. Because the Specialized EE program funds portable equipment such as welders and air compressors that contractors or other third parties use, Cal Advocates argues that ratepayers would be paying for the cost of providing EE equipment to contractors or third parties who may not contribute to the PPP fund.

The Specialized EE pilot program, just like other EE programs, is a public policy program. Thus, it is appropriate for SDG&E to recover the costs of the Specialized EE pilot program through PPP rates, with 90 percent of the revenues from electric customers and 10 percent of the revenues from gas customers. Even though contractors or third parties may be using Specialized EE equipment, because the equipment result in energy savings that benefit all ratepayers, using PPP revenues to fund the Specialized EE measures is appropriate.

7. Accounts

7.1. Port Energy Management Plan Balancing Account

SDG&E requests authority to establish the Port Energy Management Plan Balancing Account (PEMPBA) to record electric and gas revenues and costs associated with SDG&E's funding requests in this Application, namely 1) the Port's rate discount, 2) the Specialized EE pilot, and 3) the Partnership Program. SDG&E proposes that the PEMPBA be a two-way interest-bearing balancing account, so that it can compare authorized revenues to actual costs and ensure that ratepayers are charged for actual costs and refunded any overcollection. Within the PEMPBA, SDG&E proposes a PEMPBA-Electric and a PEMPBA-Gas subaccount to appropriately record the gas and electric revenues and costs.

UCAN opposes the proposed two-way balancing account treatment of the PEMPBA. UCAN argues that the proposed two-way balancing account treatment would remove any incentives for SDG&E to control costs by allowing SDG&E to have no spending limit. UCAN recommends that the Commission set a hard cap for the funding of the Partnership and EE programs and give the PEMPBA a one-way balancing account treatment.

We grant the establishment of the PEMPBA as a one-way, interest-bearing balancing account to record the costs of the Specialized EE pilot program. Since there is no funding granted for the Partnership Program, it is not necessary to record costs associated with the Partnership Program in the PEMPBA at this time. We agree with UCAN that since funding for the Specialized EE pilot program is set with a hard cap, a one-way balancing account treatment is more appropriate. SDG&E shall file a Tier 1 AL within 60 days of the issuance of this decision to establish the PEMPBA and shall record the revenues and costs associated with the Specialized EE pilot program in the PEMPBA, in the appropriate electric or gas subaccounts.

However, it is not appropriate for the PEMPBA to record the costs of the Port's rate discounts. Because the costs of the Port's rate discount will fluctuate depending on a number of factors, such as the Port's energy usage, SDG&E rate changes resulting from a General Rate Case (GRC) Phase 1 or 2 decision, or a number of other proceedings, the costs of the Port's rate discount are more appropriately recorded in a two-way balancing account. SDG&E shall file a Tier 1 AL within 20 days of the issuance of this decision to establish a two-way, interest bearing balancing account to record electric revenues and costs associated with the rate discounts given to the Port over the five-year Rate Plan period.

7.2. San Diego Unified Port District Memorandum Account

When the Commission issued D.18-11-031 to extend the Port's interim rates, the Commission directed SDG&E to establish a San Diego Unified Port District Memorandum Account (SDUPDMA). In the SDUPDMA, SDG&E records the difference between the payments received from the Port beginning January 1, 2019, and the payments the Port should have paid based on the rates authorized in this decision, up until the date the SDUPDMA is closed.

Within 20 days of the issuance of this decision, SDG&E shall file a Tier 1 AL with Energy Division to close the SDUPDMA and to dispose the balance recorded in the SDUPDMA through a payment schedule that SDG&E shall arrange with the Port.

8. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Elaine C. Lau in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3. Filed comments on ____________________, and ____________________filed reply comments on ______________________.

9. Assignment of Proceeding

Marybel Batjer is the assigned Commissioner and Elaine C. Lau is the assigned ALJ in this proceeding.

Findings of Fact

1. AB 628 directed the development of EMPs to "reduce air emissions and promote economic development through the addition of new businesses and the retention of existing businesses" in the port districts.

2. AB 628 states that businesses located in the port "may benefit from the addition of new businesses and the retention of existing businesses through increased energy cost certainty."

3. The Port's Cruise Ship Account has a low energy load factor of 2 percent.

4. Effective July 1, 2018, commercial customers with demand that exceeds 200 kW in two out of twelve months are no longer eligible for the small commercial rate and must take service on a Medium/Large Commercial Rate.

5. The Port's demand exceeds 200 kW in two out of twelve consecutive months.

6. Because the Port's demand exceeds 200 kW in two out of twelve consecutive months, the Port was scheduled to take service under a Medium/Large Commercial Rate on July 1, 2018, which would cause the Port's electricity costs to increase by approximately 400 percent.

7. Under the Medium/Large Commercial Rate, the Port's fixed and demand charges would constitute 80 percent or more of the Port's electric costs and would be the main reasons for the Port's rate shock.

8. AB 628 permits the Commission to offer technical assistance in the preparation of the EMPs on such matters as "identifying best practices, innovations in technology and potential funding sources."

9. The record does not indicate whether SDG&E and the Port reached out to the Commission's Energy Division for assistance in drafting the EMP.

10. The Commission has adopted a set of Rate Design Principles in several Commission decisions.

11. One of these Rate Design Principles is "rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals."

12. A rate discount for the Port supports the state policy goals outlined in AB 628 in helping the Port avert rate shock, manage shore power costs, and retain its cruise ship business.

13. The amount of any discount on the Port's rate would need to be collected from other SDG&E ratepayers.

14. SDG&E's proposed discount would require a larger subsidy than the Port currently receives on the small commercial rate.

15. SDG&E's proposed shore power rate does not reflect the costs associated with the Port's load factor, time of use, or peak demand and provides no incentives for the Port to address its low load factor problem.

16. The Rate Plan is sufficient in mitigating a rate shock for the Port, because the Port will pay a rate similar to its current effective rate during the first year of the Rate Plan.

17. Two Rate Design Principles the Commission previously adopted set rates based on cost causation and marginal cost principles.

18. The approved Rate Plan sets a glidepath for the Port to pay a rate similar to its Contribution-to-Margin (CTM) at the end of the discount period, in alignment with our cost causation and marginal costs principles in designing rates.

19. When the Port's rate is set at its CTM threshold, the Port pays its marginal costs and non-bypassable charges.

20. The CTM threshold is $0.50324/kWh, which is calculated based on the three-year average of the CTM thresholds using 2016-2018 billing determinants.

21. There is no record examining the appropriate escalation amount and whether using escalation is appropriate for the CTM calculation.

22. The approved Rate Plan allows the Port to manage the costs of shore power and retain its cruise ship business, in alignment with the state policy goals underlying AB 628.

23. Because the discount given to the Port on the Rate Plan gradually declines, the approved Rate Plan incentivizes the Port and SDG&E to develop and implement measures contemplated by AB 628, such as distributed generation and energy storage, so that the Port will be to shift its demand or increase its load factor.

24. When a rate discount is given to the Port, all SDG&E ratepayers benefit from the retention of the Port's electric sales, even at discounted rates.

25. Loss of some or all of the Port's electric sales will increase the revenue burden on all SDG&E ratepayers.

26. Public Purpose Program revenues are collected to recover the costs of implementing public policy programs that affect all ratepayers.

27. Under SDG&E's proposal, the Partnership Program would provide the management, staffing, governance and oversight to support the implementation of the EMP.

28. Because of the deficiencies in the EMP in addressing the Port's low load factor and energy demand issues, the Partnership Program would be implementing an EMP that does not fully accomplish the goals of AB 628.

29. SDG&E has not sufficiently shown that there is no duplicative funding of the Partnership Program activities from other sources, such as from other Commission proceedings or state grants.

30. SDG&E seeks funding for the Standard EE proposal in the Standard EE proceeding.

31. SDG&E requests $2.310 million to pursue a pilot program for the proposed Specialized EE measures.

32. The Specialized EE measures allow SDG&E and the Port to explore EE measures that are not traditionally pursued as part of the Standard EE portfolio, and that are unique to the Port.

33. The Specialized EE proposal is cost effective, with a Total Resource Cost (TRC) ratio of 0.99 and a Program Administrator Cost (PAC) ratio of 2.39.

34. For both the TRC or the PAC ratio, a value of 1.0 or greater is considered cost effective.

35. The cost-effectiveness of the Specialized EE pilot program will be verified by the pilot program process in which an Evaluation, Measurement, and Verification program will assess these measures mid-way through the program.

36. SDG&E's "pay-for-performance" Request-for-Offer selection process ensures a level of cost-effectiveness because vendors are only paid for the EE savings achieved and verified.

37. Some of the equipment that would be funded by the Specialized EE pilot is portable.

38. The portable equipment is typically large, industrial equipment contracted under commercial lease agreements to the contractors.

39. The portable equipment uses electricity from the grid and offers energy savings potential that the Standard EE portfolio does not explore.

40. SDG&E has requested that the Specialized EE measures be treated as a pilot, but SDG&E has not shown how it will meet the pilot program requirements of D.09-09-047.

41. The Specialized EE pilot is a public policy program.

42. The funding for the Port's rate discount will fluctuate depending on a number of factors, such as the Port's energy usage, SDG&E rate changes resulting from a GRC Phase 1 or 2 decision, or a number of other proceedings.

43. The San Diego Unified Port District Memorandum Account records the difference between the payments SDG&E received from the Port since January 1, 2019, and the payments the Port should have paid based on the rates authorized in this decision.

Conclusions of Law

1. Applicant SDG&E has the burden of submitting adequate proof to justify its requests.

2. The EMP developed by the Port and SDG&E falls short of meeting AB 628's goals of helping the Port manage the shore power demand, particularly for the Port's Cruise Ship Account.

3. AB 628 identifies two important state goals: 1) the reduction of air emissions at the port districts through the use of shore power to replace diesel power, and 2) the promotion of economic development at the port districts through the addition and retention of businesses by giving businesses certainty in energy (shore power) costs.

4. In support of the state policy goals outlined in AB 628, it is reasonable to grant a rate discount for the Port's Cruise Ship Account.

5. It is appropriate to use the Rate Design Principles the Commission has previously adopted as a guide in setting the Port's rate discounts.

6. Because the Port's demand charges constitute at least 80 percent or more of the Port's electric costs and are the primary reasons for the Port's rate shock, it is appropriate to apply a discount to only the Port's demand charges.

7. The five-year Rate Plan, as well as the demand charge discounts, adopted in this decision are a just and reasonable rate solution for the Port.

8. It is appropriate to structure the Rate Plan as a glidepath to the Port's CTM.

9. It is appropriate to calculate the Cruise Ship Account's CTM with the three-year average of the CTM thresholds using 2016-2018 billing determinants.

10. The Commission has broad authority to set rates.

11. It is reasonable for SDG&E to recover the costs of the Port's rate discounts through the Public Purpose Program revenues, because the rate discounts support the state policy goal outlined in AB 628.

12. Because of the EMP's deficiencies in addressing the Port's low load factor and energy demand issues, it is reasonable to deny without prejudice funding for the Partnership Program.

13. It is appropriate for SDG&E to seek approval of the Standard EE proposal through the EE proceeding.

14. It is reasonable to approve $2.310 million for SDG&E to pursue the proposed Specialized EE measures in a pilot program.

15. To provide additional assurance of the cost-effectiveness of the Specialized EE program, it is reasonable to direct SDG&E to use cost-effectiveness as a criterion when SDG&E selects its vendors during the Request-for-Offer process.

16. It is reasonable to direct SDG&E to file a Tier 2 Advice Letter to demonstrate and provide necessary documentation to show how the Specialized EE program meets all the EE pilot program requirements that are set forth in D.09-09-047.

17. It is appropriate for SDG&E to recover the costs of the Specialized EE pilot program through Public Purpose Program revenues because the Specialized EE pilot is a public policy program.

18. It is reasonable to establish a two-way, interest-bearing balancing account to record the revenues and costs associated with the Port's rate discount.

19. It is reasonable to establish a one-way, interest-bearing balancing account to record the revenues and costs associated with the Specialized EE pilot.

20. With the issuance of this decision which sets the rates for the Port's Rate Plan, the San Diego Unified Port District Memorandum Account is no longer needed.

21. It is reasonable to close the San Diego Unified Port District Memorandum Account.

O R D E R

IT IS ORDERED that:

1. Within 20 days of this decision, San Diego Gas & Electric Company (SDG&E) shall file a Tier 1 Advice Letter (AL) to implement the 2019 and 2020 rates for the San Diego Unified Port District (the Port)'s Cruise Ship Terminal Account (Account). For rates effective every year thereafter, SDG&E shall file a Tier 1 AL to implement the rates for the Port by December 1st of the prior year, until the end of the Rate Plan's five-year period.

   a. The Port's Account shall take service on a medium/large commercial and industrial rate.

   b. The Port's Account shall be given a demand charge discount according to the schedule shown in the "Adopted Five-Year Rate Plan" table in section 4.2 of this decision. This five-year Rate Plan shall begin on January 1, 2019.

   c. The costs of the rate discount shall be funded through the public purpose program revenues.

2. San Diego Gas & Electric Company (SDG&E)'s request for cost recovery of the proposed Enhanced Partnership Program is denied without prejudice. SDG&E may seek funding for the Enhanced Partnership Program through a Tier 3 Advice Letter process that complies with the guidance in this decision.

3. San Diego Gas & Electric Company shall seek approval of the proposed Standard Energy Efficiency measures in the Energy Efficiency proceeding.

4. San Diego Gas & Electric Company (SDG&E)'s request for $2.310 million to fund a pilot program for the proposed Specialized Energy Efficiency (EE) measures is approved, but SDG&E shall not collect the revenues in rates until Energy Division verifies that SDG&E has met all the pilot program requirements specified in Decision (D.) 09-09-047 through the following Tier 2 Advice Letter (AL) process.

   a. Within 60 days of the issuance of this decision, SDG&E shall file a Tier 2 AL to demonstrate and provide all necessary documentation to show how the Specialized EE program meets all the pilot program requirements that are set forth in D.09-09-047.

   b. As part of the Specialized EE pilot program, SDG&E shall make cost-effectiveness a criterion in its Request-for-Offer vendor selection process.

   c. As part of the Specialized EE pilot program, SDG&E shall also ensure that the vendors performing the Evaluation, Measurement and Verification of the EE measures are different from the vendors implementing the EE measures.

   d. The costs of the Specialized EE pilot program shall be funded through the public purpose program (PPP) revenues. Ninety percent of the costs of the Specialized EE pilot program shall come from the electric PPP revenues; the remaining ten percent of the costs shall come from the gas PPP revenues.

5. Within 20 days of the issuance of this decision, San Diego Gas & Electric Company (SDG&E) shall file a Tier 1 Advice Letter to establish a two-way, interest-bearing balancing account. In this balancing account, SDG&E shall record the electric revenues and costs associated with the rate discounts given to the San Diego Unified Port District over five-year Rate Plan period.

6. Within 60 days of the issuance of this decision, San Diego Gas & Electric Company shall file a Tier 1 Advice Letter to establish a one-way, interest-bearing Port Energy Management Plan Balancing Account to record the revenues and costs associated with the Specialized Energy Efficiency pilot program, in the appropriate electric or gas subaccounts.

7. Within 20 days of the issuance of this decision, San Diego Gas & Electric Company (SDG&E) shall file a Tier 1 Advice Letter with Energy Division to close the San Diego Unified Port District Memorandum Account (SDUPDMA) and to dispose the balance recorded in the SDUPDMA through a payment schedule that SDG&E shall arrange with the Port.

8. Application 17-09-005 is closed.

This order is effective today.

Dated ____________________________, at San Francisco, California.

APPENDIX A

APPENDIX A – GLOSSARY OF TERMS

Term	Definition
AB	Assembly Bill
AL	Advice Letter
ALJ	Administrative Law Judge
Cal Advocates	The Public Advocate's Office
CARB	California Air Resources Board
CEC	California Energy Commission
CTM	Contribution to Margin
EDR	Economic Development Rate
EE	Energy Efficiency
EM&V	Evaluation, Measurement and Verifications Plan
EMP	Energy Management Plan
ERRA	Energy Resource Recovery Account
GHG	Greenhouse Gas
GRC	General Rate Case
HVAC	Heating, Ventilating and Air Conditioning
IOU	Investor Owned Utilities
Medium/Large Commercial Rate	Medium/Large Commercial & Industrial Rate Schedule or M/L C&I Rate
PAC	Program Administrator Cost
Partnership Program	The Enhanced Partnership Program
PEMBA	Port Energy Management Plan Balancing Account
PG&E	Pacific Gas and Electric Company
PHC	Prehearing Conference
Port	San Diego Unified Port District
PPP	Public Purpose Program
PSDRDBA	Port of San Diego Rate Discount Balancing Account
Rate Plan	The shore power rate discount adopted in this decision
RFO	Request for Offers
SCE	Southern California Edison
Schedule A6-TOU	Small commercial rate
SDG&E	San Diego Gas & Electric Company

SDUPDMA	San Diego Unified Port District Memorandum Account
TE	Transport Electrification
TOU	Time of Use
TRC	Total Resource Cost
UCAN	Utility Consumers Action Network

(END OF APPENDIX A)

APPENDIX B

APPENDIX B

Assembly Bill No. 628

CHAPTER 741

An act to add Chapter 13 (commencing with Section 25990) to Division 15 of the Public Resources Code, relating to energy. [Approved by Governor October 11, 2013. Filed with Secretary of State October 11, 2013.]

LEGISLATIVE COUNSEL'S DIGEST

AB 628, Gorell. Energy management plans for harbor and port districts.
Existing law requires the State Energy Resources Conservation and Development Commission to adopt energy conservation standards to reduce the wasteful, uneconomic, inefficient, or unnecessary consumption of energy, and to implement various programs to provide financial assistance to specified entities for energy efficient improvements.

This bill would authorize the Humboldt Bay Harbor, Recreation, and Conservation District and specified harbor and port districts, as defined, jointly with an electrical corporation, gas corporation, community choice aggregator established on or before July 1, 2013, or publicly owned electric or gas utility serving the district to prepare one or more energy management plans to reduce air emissions and promote economic development through the addition of new businesses and the retention of existing businesses in the district. The bill would require, if a district prepares an energy management plan pursuant to these provisions, that the plan include specified provisions.

Bill Text
The people of the State of California do enact as follows:

SECTION 1.
The Legislature finds and declares all of the following:
(a) The state promotes the efficient use of low-cost, low-emissions energy sources in the operations of its ports and harbors.
(b) There is an opportunity in port and harbor district operations, including the movement of commercial goods, to reduce vehicular emissions of greenhouse gases and criteria pollutants.
(c) The state encourages the development of new businesses and the retention of existing businesses within port and harbor district boundaries.

(d) Energy utility customers located within the state's port and harbor districts may benefit from the addition of new businesses and the retention of existing businesses through increased energy cost certainty.
(e) Businesses located within the state's port and harbor districts may benefit through greater stability and certainty in the cost of energy services.
(f) Investor-owned utilities, community choice aggregators, and publicly owned utilities are in an optimal position, and are encouraged to engage in joint projects with port and harbor districts to provide and administer energy-related service alternatives and programs that may promote economic development and retention in those districts.

SECTION 2.
Chapter 13 (commencing with Section 25990) is added to Division 15 of the Public Resources Code, to read:

CHAPTER 13. Energy Management Plans for Harbor and Port Districts 25990.

(a) For purposes of this chapter, the term "district" shall mean the Humboldt Bay Harbor, Recreation, and Conservation District, the Ports of Hueneme, Oakland, Long Beach, Los Angeles, Redwood City, Richmond, San Diego, San Francisco, Stockton, and West Sacramento, and any other harbor, recreation, and conservation district that operates a harbor or port in the state. A district may prepare one or more energy management plans, developed jointly with an electrical corporation, as defined in subdivision (a) of Section 218 of the Public Utilities Code, a gas corporation, as defined in Section 222 of the Public Utilities Code, a community choice aggregator established on or before July 1, 2013, or a public utility, as defined in subdivision (a) of Section 216 of the Public Utilities Code, that produces, generates, or supplies electricity to the public and that serves the district in order to reduce air emissions, promote economic development, and encourage the development of new businesses and retain existing businesses in that district.

(b) If a district prepares an energy management plan pursuant to this chapter, it shall include, at a minimum, all of the following:

(1) An assessment of current energy consumption within the district by energy source and type of users. Examples of users may include commercial, industrial, governmental, ships, individual transport, and product transport.

(2) An assessment of other energy efficiency and management issues the district determines to evaluate in order to inform the development of specific goals and

actions that reduce air emissions and promote economic development, including all of the following:

(A) An electric or natural gas load forecast, developed in coordination with the serving electrical corporation, gas corporation, community choice aggregator established on or before July 1, 2013, or local publicly owned electric or gas utility that reflects anticipated load growth within the district.

(B) An assessment of the role that distributed generation, combined with accurately priced utility services, could play in providing greater rate stability and energy cost certainty to aid in economic development, and proposed actions with respect to that role. This assessment shall be developed jointly with the serving electrical corporation, gas corporation, community choice aggregator established on or before July 1, 2013, or local publicly owned electric or gas utility.

(C) An assessment, in consultation with business and industry, that identifies current and emerging processes and technologies to reduce energy consumption and improve energy efficiency.

(D) An assessment, in consultation with business and industry, that identifies domestic and international shipping requirements and operations related to energy use and consumption.

(3) A set of measurable energy performance and management goals that reduce air emissions and promote economic development, and a prioritized list of infrastructure projects, public education initiatives, and other actions that the district will undertake to achieve those goals.

(4) A list of recommendations, developed jointly with the serving electrical corporation, gas corporation, community choice aggregator established on or before July 1, 2013, or local publicly owned electric or gas utility for the enhanced use of cost-effective energy efficiency and demand-side management in existing buildings and the inclusion of energy efficiency measures as part of the development of new buildings.

(5) A description of measures to be taken to reduce air emissions for vehicle use within district boundaries, including vehicles used for movement of commercial products. Proposed actions, developed jointly with the serving electrical corporation, gas corporation, community choice aggregator established on or before July 1, 2013, or local publicly owned electric utility, may include replacement of vehicles with lower emitting alternatives and development of

infrastructure, in appropriate areas, to aid in the refueling of alternative fuel vehicles.

(6) A summary identifying governmental and nongovernmental impediments to implementation of the plan that includes recommendations on how these impediments may be overcome.

(7) A description of one-year, 3-year, 5-year, 10-year, and 15-year objectives for implementation of the plan. These objectives shall be in sufficient detail to allow the district to undertake a meaningful annual review of the plan's progress.

(8) Proposed methods to fund the activities included in the plan, including funding through utility ratepayer-funded programs.

(9) Other related energy plans, mandates, and requirements, and, to the extent possible, leverage opportunities for achieving energy efficiency and sustainable energy production, while not overburdening impacted businesses.

(c) A district that prepares a plan shall engage with small business technical assistance providers to assist in the identification of joint or collaborative energy efficiency project opportunities, public education activities, and financing opportunities that implement the actions and projects in the plan.

(d) The Public Utilities Commission shall encourage electric or gas corporations to participate jointly with local agencies in developing, implementing, and administering viable energy management plans for districts. The governing boards of local publicly owned utilities, community choice aggregators established on or before July 1, 2013, and rural electric cooperatives shall encourage joint participation with local agencies and gas corporations in developing, implementing, and administering viable energy management plans for districts.

(e) If an energy management plan is prepared pursuant to this chapter, it shall also address the development of projects that provide greater certainty of energy costs over a period of up to 15 years for businesses developing in the district.

(f) The Public Utilities Commission may offer technical assistance in the preparation of the energy management plans developed and implemented pursuant to this chapter, including, but not limited to, identifying best practices, innovations in technology, and potential funding sources.

(END OF APPENDIX B)